

Message Text

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44

ACTION TRSE-00

INFO OCT-01 NEA-14 ISO-00 AID-20 CIAE-00 COME-00 EB-11

FRB-02 INR-10 NSAE-00 RSC-01 XMB-07 OPIC-12 SP-03

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SUBJ: REGULATIONS OF FOREIGN BANKS

REF: (A) DEPT A-1911, MARCH 7, 1974

(B) TEL AVIV A-424, DECEMBER 3, 1971

(C) TEL AVIV A-363, OCTOBER 27, 1972

1. ISRAEL BANKING SECTOR IS HIGHLY CONCENTRATED: OVER 80 PERCENT OF BUSINESS IS IN HANDS OF JUST THREE BANKS OR THEIR BANKING SUBSIDIARIES. THESE BANKS ARE (A) BANK LEUMI, OWNED BY JEWISH AGENCY, (B) BANK HAPOALIM, OWNED BY HISTADRUT, AND (C) DISCOUNT BANK, OWNED BY RECANATI FAMILY. AS OF END OF 1973, THERE WERE 21 COMMERCIAL BANKS OPERATING IN ISRAEL, OF WHICH 12 WERE NOT CONTROLLED BY BIG THREE. TWO OF THESE REPRESENT AMERICAN INVESTMENT.

2. EXCHANGE NATIONAL BANK OF CHICAGO (ENBC) ESTABLISHED ISRAELI BRANCH IN 1970, PRESENTLY OPERATING TWO OFFICES, TEL AVIV (HEAD-QUARTERS) AND JERUSALEM. VICE PRESIDENT IN CHARGE TOLD US HE HAS LICENSE TO OPEN TWO ADDITIONAL OFFICES, IN NORTH TEL AVIV AND HAIFA, BUT HAS NOT DECIDED WHICH SHOULD COME FIRST. IN ANY CASE DECISION IS NOT IMMINENT, SINCE ENBC (IN COMMON WITH LOCAL BANKS) HAS BEEN LOSING DEPOSITS; THIS IS DUE TO RAPID INFLATION WHICH

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HAS MADE CONSUMER-PRICE-INDEX-LINKED GOVERNMENT BONDS MORE

ATTRACTIVE INVESTMENT THAN BANK DEPOSITS. WHEN INVITED TO COMMENT ON ISSUE OF DISCRIMINATION, ENBC VICE PRESIDENT SAID HE WAS AT DISADVANTAGE IN COMPETING WITH DOMESTIC ISRAELI BANKS SINCE ENBC WAS SUBJECT TO MUCH STRICTER US BANKING LAWS AND REGULATIONS. ONE AREA HE SPECIFICALLY NOTED WAS INABILITY TO PARTICIPATE IN ISRAELI SECURITIES MARKET, SINCE THIS WAS FORBIDDEN UNDER US LAW. HE DID NOT MENTION ANY DISCRIMINATION UNDER ISRAELI LAW.

3. FIRST INTERNATIONAL BANK OF ISRAEL LTD (FIBI) IS LOCAL BANK FOUNDED IN 1972, WITH LARGE AMERICAN EQUITY INVESTMENT BY FIRST PENNSYLVANIA BANK AND TRUST CO. IT IS FOURTH LARGEST BANK IN ISRAEL (A DISTANT FOURTH), WITH 35 BRANCHES, PLUS SUBSIDIARY WITH 9 BRANCHES. REF C DESCRIBED ESTABLISHMENT OF THE BANK BY AMALGAMATION OF SMALLER BANKS TOGETHER WITH FOREIGN INVESTMENT. GOVERNMENT SUPPORT PLAYED CENTRAL ROLE, AND WAS FORTHCOMING BECAUSE OF FOREIGN INVESTMENT INVOLVED. MANAGING DIRECTOR OF FIBI DENIED THAT HE WAS SUBJECTED TO ANY DISCRIMINATION BY VIRTUE OF FOREIGN CAPITAL INVESTMENT INVOLVED.

4. EXAMINER OF BANKS IN BANK OF ISRAEL (CENTRAL BANK) IS CHARGED WITH CONTROL AND OVERSIGHT OF BANKING INSTITUTIONS. HE OUTLINED PREVAILING PHILOSOPHY, WHICH IS TO DISCOURAGE CREATION OF TOO MANY BANKS. FIBI WAS EXCEPTION DUE TO LARGE INVESTMENT IT REPRESENTED AND PROSPECT THAT IT COULD SUCCESSFULLY COMPETE WITH BIG THREE, AS WELL AS OPEN LINES TO US BANKING SYSTEM. AS FOR ENBC, HE THOUGHT IT WOULD FIND ITS METIER IN FINANCING INTERNATIONAL TRANSACTIONS BETWEEN US AND ISRAEL; HE DOUBTED THAT ENBC COULD SUCCESSFULLY COMPETE AGAINST BIG THREE FOR DOMESTIC BUSINESS. HE IMPLIED THAT HE SAW LITTLE FUTURE IN ENTRY OF FURTHER AMERICAN BANKS INTO ISRAEL, WHICH HAS LONG BEEN CHARACTERIZED BY TENDENCY TOWARD CONCENTRATION. THERE ARE NOT INSURMOUNTABLE LEGAL OBSTACLES TO ESTABLISHMENT OF "FOREIGN" BANKS--AMONG INDEPENDENT COMMERCIAL BANKS ARE ONE EACH WITH CONNECTIONS TO UNITED KINGDOM, POLAND, SWITZERLAND, AND FRENCH ROTHSCHILDS, WHILE DISCOUNT BANK HAS JOINT VENTURE WITH BRITISH BARCLAY'S BANK IN ONE OF ITS SUBSIDIARIES. NONETHELESS, EXAMINER OF BANKS (AND GOI MINISTRY OF FINANCE) ENJOY CONSIDERABLE LATITUDE FOR DISCRETION ON APPLICATIONS TO ESTABLISH NEW BANKS. EXAMINER OF BANKS SAID THEY WOULD WEIGH PROS AND CONS FOR ISRAEL CAREFULLY IF CONFRONTED WITH APPLICATION.

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5. FOLLOWING IS TEXT OF LETTER FROM EXAMINER OF BANKS ON SUBJECT OF REGULATION OF FOREIGN BANKS:

BEGIN QUOTE "IT MAY BE GENERALLY STATED THAT THE LAWS AND REGULATIONS APPLICABLE TO FOREIGN BANKING INSTITUTIONS WHICH MAINTAIN BRANCHES IN ISRAEL ARE THE SAME AS THOSE APPLICABLE TO ISRAEL BANKS.

"THERE ARE INDEED SOME CIRCUMSTANCES IN WHICH, BY THE NATURE OF THINGS, A DISTINCTION IS DRAWN. THE ONLY EXAMPLE OF THIS WHICH COMES TO MIND IS THE BANKING (RATIO OF CREDIT GUARANTEES) ORDER, 5725-1965, WHICH IMPOSES QUANTITATIVE LIMITATIONS ON THE AMOUNT OF CREDIT GUARANTEES WHICH A LICENSED INSTITUTION (BANK OR BRANCH OF A FOREIGN BANK) MAY ISSUE. IN THE CASE OF AN ISRAELI BANK, THE LIMITATION IS A MULTIPLE OF ITS CAPITAL OR ITS FINANCIAL ASSETS; IN THE CASE OF THE BRANCH OF A FOREIGN BANK, THE LIMITATION IS BASED ON FINANCIAL ASSETS ONLY, SINCE THE CAPITAL OF THE FOREIGN BANK IS NOT DEVOTED PRIMARILY TO ITS ACTIVITIES IN ISRAEL, AS IS THE CAPITAL OF AN ISRAELI BANK.

"FOREIGN BANKS MAY PARTICIPATE IN THE SECURITIES MARKET OR IN CONSUMER FINANCING ON THE SAME BASIS AS ISRAELI BANKS. HOWEVER, WE HAVE ON OCCASION REQUESTED THAT FOREIGN BANKS SATISFY US THAT SUCH ACTIVITIES ARE WITHIN THE RANGE OF THEIR LEGAL POWERS UNDER THE LAW OF THE COUNTRY IN WHICH THEY ARE ORGANIZED.

"BRANCHES OF FOREIGN BANKS ENJOY A PRIVILEGE AS TO THE SCALE OF FEES PAYABLE TO THE ISRAELI TREASURY ACCORDING TO THE BANKING (FEES) ORDER, 5730-1970." END QUOTE

6 IN CONCLUSION, WE DO NOT BELIEVE THERE IS ANY FORMAL DISCRIMINATION AGAINST FOREIGN BANKS. INFORMALLY, VIEWS OF KEY OFFICIALS ON ESTABLISHMENT OF A FOREIGN BANK WOULD BE HIGHLY INFLUENTIAL. WE TEND TO DOUBT THAT GOI OR CENTRAL BANK WOULD WELCOME ENTRY OF FOREIGN BANK AIMED AT SERIOUS DIRECT COMPETITION WITH DOMESTIC BANKS. REF B COLLECTED CONSIDERABLE AMOUNT OF INFORMATION ON BACKGROUND OF BANKING SYSTEM AND LEGAL AND ADMINISTRATIVE REQUIREMENTS FOR ESTABLISHING BRANCHES OF FOREIGN BANKS.

VELIOTES

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